

**PUBLIC UTILITIES COMMISSION**

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TO PARTIES OF RECORD IN APPLICATION 21-07-017:

This is the proposed decision of Administrative Law Judge Atamturk. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's April 21, 2022 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ ANNE E SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:smt

Attachment

Decision **PROPOSED DECISION OF ALJ ATAMTURK** (Mailed 3/15/2022)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric
Company (U902M) for Establishment of
an Interim Rate Relief Mechanism for its
Wildfire Mitigation Plan Costs.

Application 21-07-017

**DECISION DENYING SAN DIEGO GAS & ELECTRIC
COMPANY'S APPLICATION FOR
INTERIM RATE RELIEF**

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**DECISION DENYING SAN DIEGO GAS & ELECTRIC
COMPANY'S APPLICATION FOR
INTERIM RATE RELIEF**

Summary

This Decision denies San Diego Gas & Electric Company's (SDG&E) request for authorization to establish an interim rate recovery mechanism for costs recorded in the utility's Wildfire Mitigation Plan Memorandum Accounts. After reviewing SDG&E's request and intervenors' objections, including SDG&E's financial standing, as described in the Application 21-07-017, and considering the timing of SDG&E's next General Rate Case filing, the Commission concludes that SDG&E did not sufficiently demonstrate a need for interim rate relief.

Pursuant to Public Utilities Code Section 8386.4(b), SDG&E should file for reasonableness review and cost recovery of wildfire mitigation plan costs through its general rate case or via a separate application filed at the conclusion of the three-year wildfire mitigation plan cycle.

This proceeding is closed.

1. Procedural Background

Application (A.) 21-07-017 was filed by San Diego Gas & Electric Company (SDG&E) on July 30, 2021, seeking to establish an interim rate relief mechanism for wildfire mitigation expenditures recorded in SDG&E's Wildfire Mitigation Plan Memorandum Accounts.

Notice of the Application appeared on the Commission's Daily Calendar on August 6, 2021. Resolution ALJ 176-3491 was adopted on August 19, 2021, and preliminarily categorized this proceeding as ratesetting.

Protests to the Application were timely filed by the California Farm Bureau Federation (Farm Bureau); and jointly by The Utility Reform Network (TURN) and Utility Consumers' Action Network (UCAN). In addition, the Public Advocates Office of the California Public Utilities Commission (Cal Advocates) and Southern California Edison Company (SCE) filed motions for party status. These motions were granted by the Administrative Law Judge (ALJ) rulings issued on September 13, 2021, and October 14, 2021, respectively. SDG&E submitted a Reply to Protests on September 13, 2021.

A telephonic prehearing conference was held on October 13, 2021, to discuss the scope, schedule, and other procedural matters. The assigned ALJ provided opportunity for parties to comment on the proposed scope and to meet-and-confer on the proceeding schedule. Cal Advocates, SDG&E, TURN, and UCAN submitted comments on October 20, 2021. The Scoping Memo and Ruling (Scoping Memo) issued on October 28, 2021, confirmed the ratesetting categorization, and set a deadline to file motions requesting the opportunity to serve intervenor testimony and/or to cross-examine. No party filed a motion. Thus, the December 1, 2021 ALJ Ruling took the scheduled evidentiary hearing date off the proceeding schedule.

On January 10, 2022, opening briefs were filed by Cal Advocates, SDG&E, TURN, and UCAN. Reply briefs were filed on January 20, 2022, by Farm Bureau, SDG&E, TURN, and UCAN. In addition, on January 10, 2022, SDG&E and TURN filed a joint motion to admit four exhibits into evidence. The ALJ ruling granting the motion was issued on January 26, 2022.

This proceeding was submitted upon the filing of reply briefs, on January 20, 2022.

2. Issues Before the Commission

The issues to be considered are:

1. Whether the Commission should grant SDG&E's request to establish an interim rate relief (IRR) mechanism for wildfire mitigation expenditures recorded in SDG&E's Wildfire Mitigation Plan Memorandum Accounts during the 2019-2023 period.
 - a. Whether SDG&E sufficiently demonstrated a need for an interim rate relief mechanism.
 - b. Whether SDG&E's proposal promotes fairness, minimizes costs, and provides better rate stability for SDG&E customers.
2. Whether the Commission should adopt SDG&E's proposal to update the recorded balances for 2019-2023 and amortize them in rates through SDG&E's annual regulatory account balance update process.
 - a. Whether SDG&E's proposal to amortize 50 percent of the incremental Wildfire Mitigation Plan Memorandum Accounts expenditures incurred in the 2019-2021 period over 20 months and subsequent incremental expenditures for the 2022-2023 period over 12 months is reasonable; or what alternative method and/or proposal, if any, should be adopted.
 - b. What, if any, additional reporting requirements the Commission should adopt.

3. Application Overview

SDG&E is seeking to establish an IRR mechanism for wildfire mitigation expenditures recorded in SDG&E's Wildfire Mitigation Plan Memorandum Accounts. SDG&E has two Wildfire Mitigation Plan Memorandum Accounts; one in the electric tariff books and the other in the gas tariff books.¹ These

¹ SDG&E Advice Letters 3454-E and 2817-G were filed to establish wildfire mitigation plan memorandum accounts and were approved by the Energy Division on January 23, 2020. These
Footnote continued on next page.

two accounts were established pursuant to Decision (D.) 19-05-039 and took effect on May 30, 2019. Collectively they record costs to implement SDG&E's wildfire mitigation plans,² but they do not include costs recorded to other memorandum accounts, such as SDG&E's Fire Risk Mitigation Memorandum Account, Tree Trimming Balancing Account, Liability Insurance Premiums Balancing Account, Fire Hazard Prevention Memorandum Account and Catastrophic Event Memorandum Account or other cost recovery mechanisms.

Under the IRR mechanism, SDG&E proposes to recover 50 percent of the recorded wildfire mitigation expenditures (*i.e.*, costs that are incremental to those authorized for recovery in SDG&E's general rate case (GRC) and other wildfire-related regulatory accounts), subject to a later reasonableness review. SDG&E states that should the final decision approving the costs approve a lower amount than SDG&E is authorized to recover on an interim basis, it will refund the overcollection to customers with interest.

SDG&E's request covers the period from 2019 to 2023. SDG&E proposes that Wildfire Mitigation Plan Memorandum Account costs incurred between 2019 and 2021 be amortized over 20 months and subsequent expenditures be amortized over an annual period.

SDG&E is not seeking a finding of reasonableness of these costs or of final approval to recover them in this application, but states that it will be seeking recovery in its next GRC or in a separate Application pursuant to Public Utilities (Pub. Util.) Code Section 8386.4(b)(2).

accounts are referred to as Wildfire Mitigation Plan Memorandum Account or Accounts, interchangeably.

² Application at Footnote 1; Exhibit SDG&E-02 at ED-3 and ED-4.

SDG&E reports that as of the end of the first quarter of 2021, it has an undercollected balance of approximately \$107.2 million recorded in its Wildfire Mitigation Plan Memorandum Accounts. If approved, SDG&E estimates the IRR will have the typical residential customer see a monthly bill increase of approximately 1.4 percent, or \$1.92 per in 2022; the typical gas customer would see a monthly bill increase of approximately 0.1 percent, or \$0.06 in 2022. SDG&E forecasts that ratepayers will pay \$51.6 million in 2022, \$241.8 million in 2023, and \$221 million in 2024 under the proposed amortization plan.³ The cumulative amortization would amount to \$514.4 million.

SDG&E claims that the IRR is justified for several reasons: First, SDG&E argues that due to “the disconnect and the potential for regulatory lag between expending substantial costs on wildfire mitigation activities and the timing of cost recovery,” there is a need for IRR.⁴ SDG&E states that its currently authorized revenue requirement for wildfire mitigation was included in SDG&E’s Test Year 2019 GRC Application, submitted in October 2017, and based on costs forecasted by SDG&E in the 2016-2017 timeframe. Therefore, SDG&E’s current GRC forecasts and authorized revenue requirement do not include the increase in wildfire expenditures that SDG&E undertook in response to the mandates of Senate Bill (SB) 901 (Dodd, 2018) and Assembly Bill (AB) 1054 (Holden, 2019). SDG&E projects a potential undercollection of nearly \$750 million by the end of 2023. If granted, the IRR will allow SDG&E to begin collecting revenues earlier than the implementation of its next GRC, filing of which is anticipated in May 2022.

³ SDG&E Application at Attachment C; Exhibit SDG&E-02 at ED-8.

⁴ SDG&E Opening Brief at 10.

Second, SDG&E argues that its request is consistent with D.16-08-003 and meets all four circumstances listed in D.20-10-026 that may warrant IRR. In D.16-08-003, the Commission adopted a staff proposal for an interim rate increase, subject to refund, for Southern California Gas Company (SCGC) and SDG&E's Pipeline Safety Enhancement Plan (PSEP) costs. In D.20-10-026, the Commission authorized Pacific Gas and Electric Company (PG&E) to recover, on an interim basis and subject to refund, \$447 million in revenue associated with wildfire mitigation related memorandum accounts. Referring to the circumstances supporting IRR, as listed in D.20-10-026, SDG&E claims the following:

- The IRR promotes fairness for both the utility and the public. If SDG&E's request is approved, the utility will not be burdened with carrying the incremental Wildfire Mitigation Plan Memorandum Account costs until approval of its next GRC, whereas ratepayers will not have to face the costs of additional interest associated with the increase in debt. Ratepayer fairness will be further promoted by improving intergenerational equity, and the assurance that any disallowed amounts will be returned to customers with interest.
- The IRR reduces the potential for rate shock. Ratepayers avoid the impact of absorbing the forecasted \$735 million undercollection in the Wildfire Mitigation Plan Memorandum Accounts at one time.
- The IRR preserves the financial integrity of the utility as SDG&E will not have to issue additional long-term debt at potentially higher interest rates – which in turn benefits customers who avoid the cost of the additional debt.
- The IRR smooths rate impacts on customers.

SDG&E also adds that it is exploring options and may consider filing an application for securitization of certain wildfire mitigation-related expenditures and may elect to terminate the IRR mechanism, if these options materialize.⁵

4. Party Positions

Cal Advocates does not object to SDG&E's request for IRR and recommends two modifications: 1) The interim relief should cover only electric-related costs because of the relatively small amount of costs allocated to gas; 2) SDG&E should be directed to file for recovery of wildfire mitigation costs associated with the current Wildfire Mitigation Plan which runs through 2022, no earlier than the fourth quarter of 2023 to avoid future scheduling conflicts.⁶

The opposing parties, Farm Bureau, TURN, and UCAN, raise common objections to the Application, albeit providing varying levels of details in their analyses as discussed in Section 5. First, the opposing parties contend that interim rate recovery is an extraordinary measure that should only be authorized under extraordinary circumstances.⁷ Second, they believe that the Commission's treatment of interim rate recovery specific to wildfire-related costs is the more relevant and appropriate guidance in this proceeding and should lead the Commission to deny SDG&E's request.⁸ Third, the opposing parties argue that SDG&E did not provide any convincing testimony or evidence that the undercollection would lead to a significantly high rate increase that would justify the requested mechanism. In their view, there may be alternatives that are equally effective for mitigating the potential for rate increases, such as

⁵ SDG&E Application at 12.

⁶ Cal Advocates Opening Brief at 4.

⁷ TURN Opening Brief at 1; UCAN Opening Brief at 1-2; Farm Bureau Reply Brief at 2.

⁸ TURN Opening Brief at 2.

amortizing rate recovery over a longer period after the Commission has conducted a reasonableness review of the recorded costs.

In addition, based on Moody's financial assessment of SDG&E, the opposing parties do not think that there is a financial need for the requested IRR. They note that SDG&E has an A3 rating as of May 2021 and claim that there is no indication that Moody will downgrade SDG&E's financial rating.⁹

Furthermore, given the imminent filing of SDG&E's next GRC, the opposing parties state that the anticipated "tracked" approach in the upcoming GRC would permit a reasonableness review of all costs through 2023. The opposing parties add that per SDG&E's forecasts, the vast majority of the incremental revenue requirement amounts will be recorded in 2021, 2022 and 2023. The degree of delay in starting rate recovery of the recorded costs found reasonable in those years would not be significantly different than is the case for the other two major electric utilities.

Finally, the opposing parties state that SDG&E ratepayers are still facing economic hardship driven by COVID-19, power outages, wildfire impacts, and a severe drought; therefore, additional cost on ratepayers should require a showing of absolute necessity.¹⁰

5. Discussion

After reviewing the Application and testimony, including SDG&E's financial condition, as described in the Application, and considering the timing of SDG&E's next GRC filing, the Commission concludes that SDG&E did not

⁹ Moody's ranks the creditworthiness of borrowers using a standardized ratings scale. In this system, a rating of A3 denotes upper-medium grade and low credit risk long-term with high ability to repay short-term debt.

¹⁰ Farm Bureau Reply Brief at 3; UCAN Reply Brief at 2.

sufficiently demonstrate a need for interim rate relief. Hence, A.21-07-017 is denied.

SDG&E should request a reasonableness review and recovery of its wildfire mitigation plan costs in its upcoming GRC or in a separate application pursuant to Pub. Util. Code Section 8386.4(b).

5.1. Commission's Treatment of Interim Rate Recovery Specific to Wildfire-Related Costs Provides the More Relevant Guidance

The Commission concludes that prior treatment of interim rate recovery specific to wildfire-related costs provides the more relevant guidance in this proceeding.

SDG&E states that its interim rate recovery proposal is modeled after the mechanism that the Commission approved in Phase 2 of SDG&E's and SCGC's PSEP proceeding. In D.16-08-003, the Commission authorized SDG&E and SCGC's request to recover in rates, subject to refund, 50 percent of the revenue requirements associated with PSEP costs recorded in three PSEP-related regulatory accounts.¹¹ The Commission approved this mechanism based on the finding that it "reasonably balances mitigation of the potential for customer rate shock from large rate increases with the Commission's Constitutional and statutory duty to review and approve rate increases."¹² SDG&E believes that the same rationale applies to this application. Providing a detailed account of the most recent Commission activities related to IRR requests for wildfire mitigation expenditures, TURN disagrees with SDG&E and states that the Commission's treatment of interim rate recovery specific to wildfire-related costs is the more

¹¹ D.16-08-003 at Ordering Paragraph 1.

¹² D.16-08-003 at Findings of Fact 4.

relevant and appropriate guidance in this proceeding and should lead the Commission to deny SDG&E's request.¹³

Even though each application is reviewed based on its own merits, the most recent decisions on similar requests are more relevant to the Commission's review of this Application and should guide our decision-making in this Application. In A.18-03-015, PG&E sought recovery of costs recorded in its Catastrophic Event Memorandum Account. On July 25, 2018, PG&E filed a motion seeking interim recovery of 75% of the recorded costs in 2016 and 2017. The motion was denied on November 2, 2018, by an ALJ Ruling which stated, in part: "The limited authority for PG&E's Motion is reserved for more exceptional circumstances than are found in this matter. PG&E has failed to demonstrate the requisite harm to meet the demonstration of need for IRR."¹⁴ In D.19-04-039 partially resolving A.18-03-015 and providing limited relief to PG&E, the Commission considered "the extremely rare and unique facts that apply to PG&E's financial condition..."¹⁵ In that decision, the Commission provided limited relief to PG&E, referred to the utility's financial position, and stated "[w]e are also persuaded, in light of PG&E's financial condition and the perception of that condition represented by rating agency reports..."¹⁶ Similarly, in D.20-10-026, the Commission authorized PG&E's interim rate recovery, subject to refund, referring to PG&E's financial condition and concluding that, "[t]he Commission should approve interim rate recovery, subject to refund, now as

¹³ TURN Opening Brief at 2.

¹⁴ ALJs' Ruling Denying Pacific Gas and Electric Motion for IRR (November 2, 2018), at 2. The ruling is available at: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M236/K010/236010080.PDF>.

¹⁵ D.19-04-039 at 5.

¹⁶ D.19-04-039 at 6.

PG&E Company emerges from bankruptcy protection to achieve immediate and long-term benefits to ratepayers through lower financing costs.”¹⁷

There were also two other recent cases in which SCE’s similar requests were not approved. In A.19-07-020, Application of SCE for Authorization to Recover Costs Related to 2018-2020 Wildfire Insurance Premiums Recorded in its Wildfire Expense Memorandum Account, SCE’s motion seeking partial interim rate recovery of 50% of the associated revenue requirement was not acted upon by the Commission.¹⁸ In A.19-08-013, Application of SCE for Authority to Increase its Authorized Revenues for Electric Service in 2021, among other things, and to Reflect that Increase in Rates, Track 2, SCE filed a motion seeking interim rate recovery of the recorded costs included in Track 2. The motion was denied by ALJ ruling on May 22, 2020, based on the determination that interim rate recovery is not in the public interest, and that SCE failed to demonstrate that such recovery is necessary to maintain its financial integrity.¹⁹

As is clear from recent Commission’s response to requests that are similar to SDG&E’s, the Commission considers financial impact and the degree of the financial impact to be crucial factors in review and resolution of interim rate recovery requests.

5.2. Whether There is Need for Interim Rate Relief

The question before the Commission is whether SDG&E has sufficiently demonstrated a need for IRR. The review of the Application and testimony leads

¹⁷ D.20-10-026 at Conclusion of Law 3.

¹⁸ D.20-09-024 at 54.

¹⁹ ALJs’ Ruling Denying SCE’s Motion for Interim Rate Recovery (May 22, 2020) at 1. The ruling is available at:

<https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M338/K276/338276824.PDF>

the Commission to conclude that IRR is not necessary. SDG&E can seek a timely reasonableness review and recovery of wildfire-related costs in its upcoming GRC that will be filed in May 2022.

SDG&E claims that the IRR will (1) promote fairness to both the utility and the public; (2) reduce the potential for rate shock; (3) preserve the financial integrity of a utility, minimize costs incurred by ratepayers and ensure rate stability; and (4) smooth rate impacts on customers.²⁰

As TURN stated, “these factors are applicable to a certain extent, whenever a memorandum account records a material amount of costs for potential future rate recovery.”²¹ Any of these factors may be necessary but is not sufficient to warrant an IRR. Therefore, we consider some of these factors more in depth to determine if the requested IRR is warranted.

First, we will consider the potential impact on SDG&E’s financial status, as described in the Application. No party disputes that SDG&E is financially stable. SDG&E’s investment grade rating was upgraded to A3 by Moody’s in May 2021. However, SDG&E claims that its financial status will be negatively affected if the request for an interim rate relief mechanism is not granted. SDG&E does not claim to be in the same financial position as PG&E, but believes that recovery of the Wildfire Mitigation Plan Memorandum Account balances and the debt associated with those balances does have an impact on its financial position.²² Assuming that they will finance the operational shortfalls by taking long-term debt as opposed to funding with commercial paper, SDG&E estimates

²⁰ Application at 9.

²¹ TURN Reply Brief at 1.

²² SDG&E Reply Brief at 11.

that customers will experience an overall savings of \$40 million in potential cumulative interest expense if interim rate relief is adopted as requested.²³

In order to demonstrate the financial impact of the IRR, SDG&E focuses on one particular metric that major credit agencies use to quantify financial risk: funds from operations (FFO) as a percent of total debt. The FFO-to-Total Debt ratio, a key indicator of creditworthiness, measures how much debt a company could retire with annual cash from operations. A higher ratio indicates a stronger ability to retire debt, and thus lower financial risk.²⁴ SDG&E states that as debt obligations increase, more cash flow must be committed to debt payments. In SDG&E's view, FFO to debt ratio could be negatively impacted if the IRR mechanism is not adopted, leading to potential credit ratings downgrade and associated higher borrowing costs.²⁵

The most recent Moody's Investor Service Credit Opinion of SDG&E states that "A downgrade of SDG&E's ratings is possible upon a deterioration in its credit metrics such that its ratio of CFO [Cash Flow from Operations] pre-W/C [Working Capital] to debt falls below 20% for a sustained period of time..."²⁶ In its testimony, SDG&E provides the table below and claims that without the interim relief, the FFO/Debt ratio goes down from 23.9% to 21.2%, nearly reaching Moody's minimum threshold of 20% for SDG&E to maintain its current A3 rating.²⁷

²³ SDG&E Reply Brief at 9.

²⁴ Exhibit SDG&E-03 at CB-9.

²⁵ Exhibit SDG&E-03 at CB-10.

²⁶ Exhibit SDG&E-04 at 3.

²⁷ Exhibit SDG&E-03 at CB-10.

Table 1. FFO to Debt Ratio

Metric	2020 Actual	Without Interim Rate Relief
Funds from Operations (in millions)	\$1,537	\$1,517
Debt (in millions)	\$6,434	\$7,168
FFO/Debt	23.9%	21.2%

In response, TURN argues that even assuming the total amount recorded in the Wildfire Mitigation Plan Memorandum Accounts through the end of 2023 is financed with long-term debt (and in the absence of any interim rate recovery), the metric would decline to 21.2%, which would still be above the 20% benchmark figure that might trigger a downgrade to the Moody's credit rating. TURN also adds that even if SDG&E's FFO to debt metric may potentially decline to below 20% for some period of time, as SDG&E calculates in its testimony, the utility has not demonstrated that such impact will continue reasonably long enough to be considered as "sustained over a longer-term,"²⁸ which appears to be an essential element of downgrades by Moody's. Furthermore, under more ordinary ratemaking practices and review schedules, SDG&E can reasonably expect to achieve rate recovery within a relatively few years after 2022 and 2023.²⁹

Furthermore, the opposing parties state that there is nothing in the Moody's Credit Opinion (Credit Opinion) that leads them to believe that SDG&E is financially in a critical condition.³⁰ The Credit Opinion does not point to any unanticipated risk that may support SDG&E's request for interim rate relief. It

²⁸ TURN Opening Brief at 11 and at 19-20.

²⁹ TURN Opening Brief at 11.

³⁰ TURN Opening Brief at 17-20; Farm Bureau Reply Brief at 2-3.

also does not express any concern specific to regulatory lag associated with SDG&E's wildfire mitigation plan expenditures. The Credit Opinion states that SDG&E's report will remain "strong despite...its material capital investments..."³¹ The Credit Opinion also recognizes that SDG&E's "significant \$9.6 billion investment program during the 2021-2025 period" will be subject to a regulatory environment in California that includes "some regulatory lag" between cost incurrence and rate recovery. It is reasonable to conclude that the update is cognizant of the regulatory process and ratemaking schedule associated with wildfire mitigation expenditures and still finds the utility in stable financial standing.

In summary, the Commission agrees with the opposing parties that the Credit Opinion presents a favorable picture of SDG&E's current and upcoming financial condition and does not express concern due to the potential for regulatory lag associated with SDG&E's recovery of wildfire related expenditures.

Therefore, the Commission is not convinced that retaining the current ratemaking treatment of costs recorded in the Wildfire Mitigation Plan Memorandum Accounts presents any significant threat to SDG&E's credit rating or its financial integrity. The Commission is also not persuaded by SDG&E's showing that the denial of SDG&E's request will inordinately impact SDG&E's financial ranking.

Next, we discuss SDG&E's arguments regarding rate shock. SDG&E claims that granting the requested interim rate recovery is necessary to reduce the potential for rate shock or ensure rate stability or minimize costs.

³¹ Exhibit SDG&E-04 at 2.

The Commission recognizes that collecting a certain balance from ratepayers over a longer period of time may provide rate stability and avoid sharp rate increases, all else being equal. However, SDG&E did not provide a showing of substantial rate stability and rate shock benefits, that cannot be achieved in the GRC application that they will be filing within a few months of the issuance of this decision. There are many tools the Commission may find appropriate to smooth out significant rate increases. For example, the Commission has the authority to adopt an extended amortization period to mitigate the rate impacts on SDG&E's customers when the amounts found reasonable are added to the utility's authorized revenue requirement. If rate shock is indeed the concern regarding SDG&E's wildfire mitigation related expenses, it is appropriate for the Commission to comprehensively review these expenditures and evaluate the rate impact, along with the rate impact of other expenditures, in SDG&E's GRC.

SDG&E also claims that its proposal would promote intergenerational equity by ensuring that "the same customers who benefit from the investments in wildfire mitigation will pay for those investments at the time they are made."³² The Commission does not find SDG&E's argument convincing.

SDG&E forecasts most of its spending to occur in the 2022-2023 timeframe. Under its proposal, the rate recovery of incremental revenue requirements associated with the 2022-2023 spending would occur over the 2023-2024 period. TURN states that if the reasonableness review of 2022-2023 costs occurs in SDG&E's upcoming GRC, with decisions issued in late 2024 and early 2025,

³² Exhibit SDG&E-03 at CB-6.

the rate recovery could reasonably be expected to begin in 2025 and extend through 2027, assuming the same three-year amortization period requested in SDG&E's proposal. The Commission agrees with TURN and finds that there is relatively minor difference between the two rate recovery periods and that one recovery period does not dominate the other one in terms of achieving intergenerational equity. Hence, SDG&E's argument for achieving intergenerational equity does not necessitate IRR.

5.3. Conclusion and Next Steps

After reviewing the Application and testimony, including SDG&E's financial condition, as described in the A.21-07-017, and considering the timing of SDG&E's next GRC filing, the Commission concludes that SDG&E did not sufficiently demonstrate a need for IRR. Hence, A.21-07-017 is denied.

Pursuant to Pub. Util. Code Section 8386.4(b), SDG&E should file for reasonableness review and cost recovery through its GRC or via a separate application filed at the conclusion of the three-year wildfire mitigation plan cycle. Pub. Util. Code Section 8386.4(b) provides the following:

- (1) The commission shall consider whether the cost of implementing each electrical corporation's plan is just and reasonable in its general rate case application. Each electrical corporation shall establish a memorandum account to track costs incurred for fire risk mitigation that are not otherwise covered in the electrical corporation's revenue requirements. The commission shall review the costs in the memorandum accounts and disallow recovery of those costs the commission deems unreasonable.
- (2) In lieu of paragraph (1), an electrical corporation may elect to file an application for recovery of the cost of implementing its plan as accounted in the memorandum account at the conclusion of the time period covered by the plan. If the electrical corporation files an application for cost recovery pursuant to this paragraph, the commission

shall issue a proposed decision within 12 months of the filing date of the application unless the commission issues an order extending the deadline upon a finding of good cause.

Since the enactment of AB 1054, the Commission has undertaken two GRCs, A.21-06-021 and A.19-08-013, for PG&E and SCE, respectively. In each, the initial scope and phasing of the proceeding accommodated the reasonableness review of recorded costs incurred under the utility's Wildfire Mitigation Plan in the years leading up to the test year.³³ A similar approach would be appropriate for SDG&E's case.

6. Comments on Proposed Decision

The proposed decision of ALJ Nilgun Atamturk in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

7. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Nilgun Atamturk is the assigned ALJ in this proceeding.

Findings of Fact

1. SDG&E requests authorization to recover 50 percent of the recorded wildfire mitigation expenditures that are incremental to those authorized for recovery in SDG&E's general rate case and other wildfire-related regulatory accounts, subject to a later reasonableness review.

2. SDG&E's request covers the period from 2019 to 2023. SDG&E proposes that its Wildfire Mitigation Plan Memorandum Account costs incurred between

³³ See SCE's test year 2021 GRC (A.19-08-013) PG&E's test year 2023 GRC (A.21-06-021).

2019 and 2021 be amortized over 20 months and subsequent expenditures be amortized over an annual period.

3. SDG&E will seek reasonableness review of its costs in the Wildfire Mitigation Plan Memorandum Accounts later this year in its GRC or in a separate application pursuant to Pub. Util. Code Section 8386.4(b)(2).

4. SDG&E's investment grade rating was upgraded to A3 by Moody's in May 2021.

5. No party disputes that SDG&E is financially stable.

6. Recent Commission actions in response to requests similar to SDG&E's show that the financial impact and the degree of the financial impact have been crucial factors in review and resolution of interim rate recovery requests.

7. Moody's Investor Service Credit Opinion of SDG&E, dated May 10, 2021, states that a downgrade of SDG&E's ratings is possible upon a deterioration in its credit metrics such that its ratio of cash flow from operations pre-working capital to debt falls below 20% for a sustained period of time.

8. Though SDG&E's FFO/Debt ratio could decrease from 23.9% to 21.2% if interim rate relief is not granted, this ratio exceeds the level identified by Moody's for a potential downgrade.

9. Moody's Investor Service Credit Opinion of SDG&E, dated May 10, 2021, presents a favorable picture of SDG&E's current and upcoming financial condition and does not express any specific concern due to the potential for regulatory lag associated with SDG&E's recovery of wildfire related expenditures.

10. SDG&E did not provide a showing of substantial rate stability and rate shock benefits, that cannot be achieved in a GRC filing that they will be making within a few months of the issuance of this decision.

11. Under ordinary ratemaking practices and review schedules, SDG&E can reasonably expect to achieve rate recovery within a relatively few years after 2022 and 2023.

12. There is a relatively minor difference between the proposed rate recovery period and the rate recovery that would occur as a result of the ordinary ratemaking process in terms of achieving intergenerational equity.

Conclusions of Law

1. The Commission's treatment of interim rate recovery specific to wildfire-related costs provides the most relevant guidance in this proceeding.

2. Rate shock concerns regarding SDG&E's wildfire mitigation related expenses are best explored as part of a comprehensive review of these expenditures and rate impacts, alongside the rate impact of other expenditures in SDG&E's GRC.

3. Based on the circumstances of this case, SDG&E's request for interim rate recovery is not reasonable and should be denied.

4. Pursuant to Pub. Util. Code Section 8386.4(b), SDG&E should file for reasonableness review and cost recovery through its GRC or via a separate application filed at the conclusion of the three-year wildfire management plan cycle.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's request for authorization to establish an interim rate recovery mechanism for costs recorded in the utility's Wildfire Mitigation Plan Memorandum Accounts, as proposed in Application 21-07-017, is denied.

2. Application 21-07-017 is closed.

This order is effective today.

Dated _____, at San Francisco, California.